



DEFENSE FINANCE AND ACCOUNTING SERVICE

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SEP 24 1996

DFAS-HQ/F

MEMORANDUM FOR DIRECTOR, DEFENSE FINANCE AND ACCOUNTING SERVICE
- CLEVELAND CENTER
DIRECTOR, DEFENSE FINANCE AND ACCOUNTING SERVICE
- DENVER CENTER
DIRECTOR, DEFENSE FINANCE AND ACCOUNTING SERVICE
- INDIANAPOLIS CENTER
DIRECTOR, DEFENSE FINANCE AND ACCOUNTING SERVICE
- KANSAS CITY CENTER

SUBJECT: Department of Defense Financial Management Regulation,
Volume 7B (DoDFMR, Vol 7B), Survivor Benefit Plan,
(DFAS Item E-41)

This is DFAS Interim Change Number R8-96 to the DoDFMR,
Vol 7B.

We have evaluated your comments on the draft change to the DoDFMR, Vol 7B. The attached final version of the change includes your comments where appropriate. Assignment of an interim change number is your authority to initiate programming and procedural modifications to facilitate this change.

We have determined that this policy change is to be implemented under the auspices of DFAS Regulation 7920.3-R. The responsible DFAS Center will ensure the necessary system changes are scheduled for implementation consistent with all known requirements. Centers are advised to make DFAS-Headquarters (FMM) an information addressee on implementing field procedures. For the Denver Center, use the attached to initiate the formal printed change to the DoDFMR, Vol 7B.

Our point of contact, Ms. Ann Cook, may be contacted at (703) 607-5059 or DSN 327-5059. Our FAX number is DSN 332-5271 or (703) 602-5271.

Roger W. Scarce
for Roger W. Scarce
Brigadier General, USA
Deputy Director for Finance

Attachment:
As stated

cc: DASD (MPP) (COMP)

DGC (F)
DFAS-HQ/DG
DFAS-DE/DG
Service Liaisons
USCG/NOAA/PHS Liaisons
DJMS PMO

1. Add paragraph 90102ad to read:

"ad. Consideration for Contract. Total amount of premiums paid by the participant member for the type of Survivor Benefit Plan (SBP) selected. Also see definition for cost of coverage in subparagraph 90102g.

2. Add paragraph 91103a to read:

"a. Consideration for Contract. The SBP annuitant is entitled to an income exclusion when the following condition exists:

Upon death of the participant member, the "consideration for contract" has not been excluded in whole from the member's gross income.

After December 31, 1965, the member's survivor who is receiving the annuity may exclude from gross income such annuity payments received until the total exclusion equals the portion of the "consideration of contract" not previously excluded from the member's taxable income. The DFAS Center's pay system will accomplish the applicable direct reduction in taxable income for the annuitant and report the residual amount as taxable income on the annuitant's Form 1099-R.

Example: When a member died on January 1, 1995, \$1000 of the total "consideration for contract" had not yet been excluded from the member's non-disability retired pay. For 1995, DFAS will report the taxable annuity less \$1000, and this reported residual amount should be used by the surviving spouse in their income tax computation for the calendar year."

3. Change current paragraph number 91103 to:

"b. Disabled Member's Death Before Normal Retirement Age."

4. Add new paragraph 91103c to read"

"c. Direct Cost Payments. The tax-free benefit on SBP premiums is not available to members who waived military retired pay to receive Department of Veterans Affairs disability compensation (see paragraph 90406b(1)). Instead, upon the member's death, the annuity paid to the member's survivor will be exempt from federal income tax until the amount excluded equals the total of the member's direct cost payments.

5. Add Section C to DoDFMR, Vol 7B, Part 10, Reserve Component Survivor Benefit Plan (RCSBP), chapter 5, to read:

"Section C
Taxability of Annuity

100512. The provisions of Part 9, Chapter 11, regarding the taxability of annuities also applies to annuities under RCSBP."

6. Change paragraph 90408 to read:

"For federal income tax purposes, the cost for SBP coverage is excluded from taxable income when the premiums are deducted from the member's retired pay. A member whose pay is subject to tax reporting will, while in a pay status, receive the tax benefit through a reduction in the taxable income reported to the Internal Revenue Service. No reduction against the taxable income can be given for interest paid on the delinquent cost."

7. Change paragraph 50110a to read:

"When the retired pay account of an SBP participant is placed in a suspended status the member is required to pay monthly SBP costs by remittance (See paragraph 91103 for resulting tax consequences).

8. Add the following citations to the Bibliography:

"Paragraph	Citation
90102ad	26 U.S.C. 122(b)(2)
91103	Treas. Reg. 1.122-1(b)